

FDIC State Profile

Spring 2006

Connecticut

Employment growth in the service sector outpaced total job growth in Connecticut during 2005

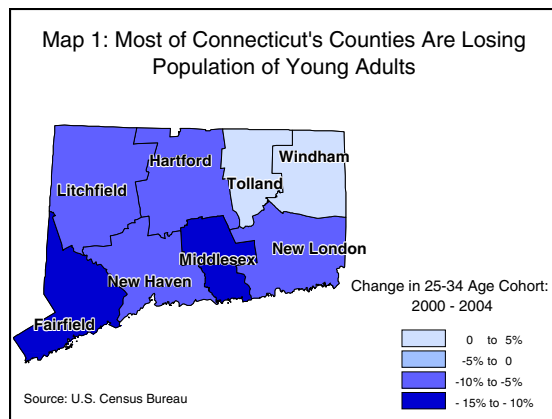
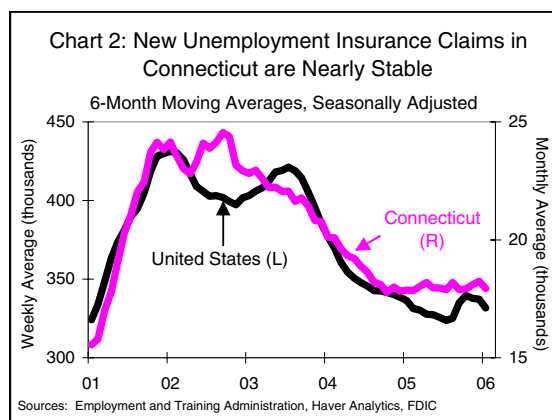
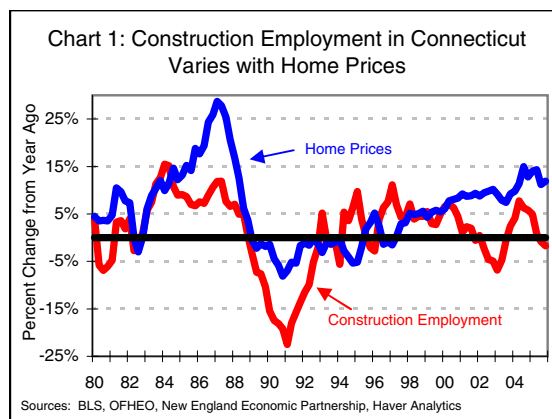
- The Connecticut economy added 13,200 new jobs from fourth quarter 2004 through fourth quarter 2005, a gain of 0.8 percent. Growth was concentrated in government services (1.7 percent), professional and business services (1.6 percent), and finance, insurance and real estate (1.3 percent).
- The construction sector declined by 1.1 percent for 2005. Construction employment is highly variable over time and is significantly influenced by the behavior of housing prices (see Chart 1). This was especially true in the 1980s and early 1990s and appears to be the case now. Given this relationship, the recent slowing in the rate of home appreciation may portend some further decreases in construction employment.
- Of the construction subsectors, specialty trade contracting (plumbing, painting, and electrical work), lost 2.4 percent of jobs and accounted for almost the entire decline in construction employment.
- Manufacturing and information services—two sectors that have struggled to add jobs since the recession—also posted job losses for this period of 1.4 percent and 2.2 percent, respectively.

Unemployment insurance claims show slow improvement in Connecticut.

- Since reaching a peak monthly average of 24,500 in late summer of 2002, initial unemployment insurance claims have declined to more moderate levels. As of January 2006, the six-month seasonally adjusted monthly average stood at 18,000 (see Chart 2).
- This level of new claim activity remains below Connecticut's historical average, suggesting moderate gains in employment over the near term.

Only Connecticut's two least populous counties saw growth in the young adult population.

- Connecticut recorded an 8.6 percent decline for the 25 to 34-year-old cohort from 2000 to 2004, the largest decline of the six New England states and in sharp



contrast to the U.S. average of 0.5 percent growth.

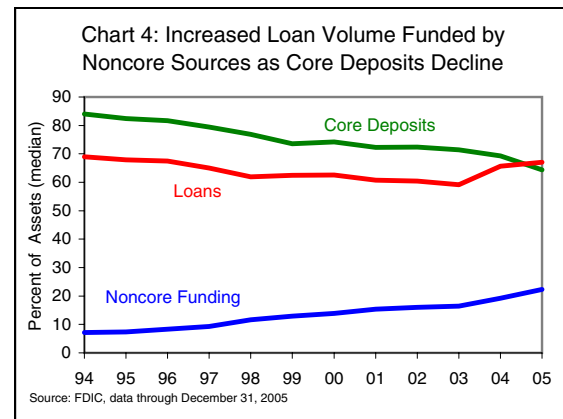
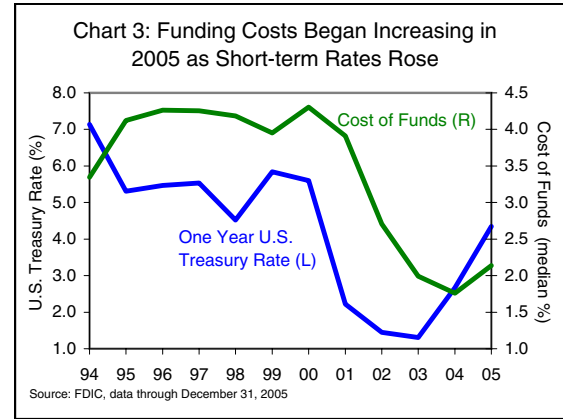
Tolland and **Windham Counties**, which account for just 7 percent of Connecticut's population, were the only two counties that recorded an expansion of the 25 to 34 age cohort from 2000 to 2004, most likely lured by lower housing costs (see Map 1). This demographic group can set the pace for economic development of an area as they join the workforce and form households.

- **Litchfield** and **Middlesex Counties** both had roughly 10 percent declines in the young adult population from 2000 to 2004, but were among the faster growing counties in terms of total population growth, 3.5 and 4.1 percent, respectively. Even **Fairfield's** 14.4 percent decline in 25 to 34 year olds was a notable contrast to the 2.0 percent total population growth over the same time frame.

Rising short-term interest rates, a flatter yield curve, and a decline in core deposits are pressuring net interest margins (NIMs).

- NIMs have been on a general decline and have experienced pressure since the mid 1990s in Connecticut's insured institutions. In 2005, NIMs improved slightly by three basis points to 3.74 percent as asset yields increased slightly faster than funding costs through most of the year.
- In 2004, the Federal Reserve began a series of short-term interest rate increases that have continued into the early part of 2006. These increases led to a flattening yield curve as the difference in short-term rates and long-term rates narrowed considerably.¹
- A flattening yield curve often causes NIM compression as banks tend to borrow short-term and lend longer-term. Connecticut's insured institutions managed to finish 2005 without major compression in NIMs as interest expense remained low. However, funding costs began to increase late in 2005 in response to rising short-term interest rates (see Chart 3).
- With fewer low cost core deposits to fund loan growth, banks are increasingly turning to more expensive noncore funding sources such as borrowings. As of December 31, 2005, Connecticut's insured institutions posted a noncore funding to asset ratio of 22.30 percent, which is the 20th highest in the nation (see Chart 4). Noncore funding typically is more sensitive to changes in market interest rates than core funding, and as a result, could further pressure NIMs should rates continue to rise.
- Going forward, the impact on NIMs from increased funding costs in Connecticut's insured institutions may

be more pronounced due to the large concentrations of long-term mortgage related assets because deposits usually reprice more frequently than long-term assets. Connecticut's insured institutions hold almost 32 percent of total assets in long-term assets.



¹FYI: An Update on Emerging Issues in Banking. What the Yield Curve Does (and Doesn't) Tell Us. February 22, 2006. <http://www.fdic.gov/bank/analytical/fyi/2006/022206fyi.html>

Connecticut at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q4-05	Q3-05	Q4-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	0.7%	0.7%	0.7%	0.3%	-1.2%
Manufacturing (12%)	-1.3%	-1.2%	-0.4%	-1.4%	-5.3%
Other (non-manufacturing) Goods-Producing (4%)	-1.7%	-0.8%	5.8%	6.0%	-2.3%
Private Service-Producing (70%)	0.9%	1.2%	0.8%	0.7%	-0.4%
Government (15%)	1.5%	0.4%	-0.1%	-1.3%	-1.3%
Unemployment Rate (% of labor force)	4.7	4.9	4.8	4.9	5.5
Other Indicators	Q4-05	Q3-05	Q4-04	2004	2003
Personal Income	N/A	5.0%	8.7%	6.8%	1.4%
Single-Family Home Permits	-26.9%	-4.6%	14.9%	13.5%	-6.6%
Multifamily Building Permits	41.8%	0.5%	-3.3%	26.9%	99.8%
Existing Home Sales	-9.9%	8.9%	2.4%	14.2%	-1.1%
Home Price Index	11.9%	11.2%	12.8%	12.3%	8.4%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	5.70	4.26	2.94	3.22	3.46

BANKING TRENDS

General Information	Q4-05	Q3-05	Q4-04	2004	2003
Institutions (#)	58	58	57	57	63
Total Assets (in millions)	65,829	64,624	60,727	60,727	55,885
New Institutions (# < 3 years)	2	3	3	3	7
Subchapter S Institutions	1	1	1	1	1
Asset Quality	Q4-05	Q3-05	Q4-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.72	0.59	0.78	0.78	0.82
ALLL/Total Loans (median %)	1.08	1.10	1.13	1.13	1.18
ALLL/Noncurrent Loans (median multiple)	3.32	3.23	3.42	3.42	2.73
Net Loan Losses / Total Loans (median %)	0.01	0.01	0.00	0.01	0.02
Capital / Earnings	Q4-05	Q3-05	Q4-04	2004	2003
Tier 1 Leverage (median %)	10.08	10.49	10.24	10.24	9.36
Return on Assets (median %)	0.70	0.88	0.73	0.83	0.82
Pretax Return on Assets (median %)	0.96	1.27	1.05	1.31	1.24
Net Interest Margin (median %)	3.80	3.73	3.75	3.71	3.66
Yield on Earning Assets (median %)	5.77	5.61	5.25	5.13	5.39
Cost of Funding Earning Assets (median %)	2.00	1.82	1.46	1.46	1.63
Provisions to Avg. Assets (median %)	0.02	0.03	0.04	0.04	0.06
Noninterest Income to Avg. Assets (median %)	0.52	0.60	0.51	0.51	0.55
Overhead to Avg. Assets (median %)	3.14	2.89	3.01	2.97	2.81
Liquidity / Sensitivity	Q4-05	Q3-05	Q4-04	2004	2003
Loans to Assets (median %)	67.0	67.1	65.7	65.7	59.1
Noncore Funding to Assets (median %)	22.3	20.3	19.2	19.2	16.4
Long-term Assets to Assets (median %, call filers)	32.9	32.7	36.1	36.1	40.1
Brokered Deposits (number of institutions)	17	15	13	13	9
Brokered Deposits to Assets (median % for those above)	0.7	1.0	1.6	1.6	0.6
Loan Concentrations (median % of Tier 1 Capital)	Q4-05	Q3-05	Q4-04	2004	2003
Commercial and Industrial	40.5	36.2	37.0	37.0	41.7
Commercial Real Estate	167.7	164.4	162.2	162.2	144.8
<i>Construction & Development</i>	42.2	43.1	36.9	36.9	31.7
<i>Multifamily Residential Real Estate</i>	6.2	7.1	6.0	6.0	3.7
<i>Nonresidential Real Estate</i>	106.0	108.0	109.9	109.9	96.4
Residential Real Estate	375.3	367.0	361.5	361.5	371.5
Consumer	5.7	5.4	5.9	5.9	10.0
Agriculture	0.0	0.0	0.0	0.0	0.0

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Hartford-West Hartford-East Hartford, CT	30	28,777	< \$250 million	24 (41.4%)
Bridgeport-Stamford-Norwalk, CT	26	22,671	\$250 million to \$1 billion	25 (43.1%)
New Haven-Milford, CT	25	16,485	\$1 billion to \$10 billion	7 (12.1%)
Norwich-New London, CT	13	3,938	> \$10 billion	2 (3.4%)